

Little Did I Know



Keith Tyner

I was 31. I had a master's degree in finance. I worked in the financial services industry for five years. I had mortgage broker friends. But I had no idea how a

mortgage worked.

Connie and I were chasing the component of the American Dream that involved owning a house.

How does one know how to proceed? I didn't know anything about the process. Nothing against my realtor or mortgage broker, but they were compensated in a manner that promoted bigger houses and mortgages in our pursuit.

Our first house was a Trinity Home in Fishers, IN. It cost \$132,000 and we borrowed \$120,000 with an 8%, 30-year mortgage. Our mortgage payment was \$881 with \$81 reducing our principal balance and \$800 going to the mortgage company for the privilege of using their money.

I was intimidated and a bit overwhelmed when we landed at the title company office for our closing appointment. Evidently these sorts of meetings happen many times daily and the process is an ordinary one. And yet the documents set before me were complex and written by an attorney with the expectation no one would understand the essence. And yet it was clear that the builder, mortgage company and any other professional entity had removed possible liability from themselves by disclosing page after page of confusing writings.

If I were buying my first house today, these are the top 5 things I would wrap my mind around.

1. The current housing market is inflated, and house prices could decrease quickly, will I be OK making a long-term payment on a property I can't sell for the price I paid?

2. Would I be better served buying less house today and paying it off quickly?

3. Do I really understand what is important to me with my first house?

4. Does the mortgage I am considering allow me flexibility to adjust my career direction?

5. If I decide I don't like my house purchase decision, have a good understanding of what my risk to sell it sooner than I originally expected.

A house is a quality-of-life and not necessarily an investment decision.

Overcommitting to your first house may well deteriorate your quality of life. Peace of mind comes with excess cash flow. There are several original expenditures new homeowners discover once they take possession of their new structure. Allowing financial margin can provide a smoother transition.

The Gimbal team is happy to encourage you or someone you love who is considering their first house purchase.

What About This Strategy?

Did you know that the duration of your mortgage can have a greater impact on the amount of interest you will pay than your interest rate? The table below shows estimates on a \$100,000 mortgage based on 6%, 7% and 8% mortgages over 7, 10, 15 and 30 years.

\$100,000 Mortgage Comparison

Term in Years	Interest Rate	Monthly Payments	Monthly Principal	Monthly Interest	Payments until split	Total Interest
30	8%	734	67	667	257	164,155
15		956	289	667	77	72,017
10		1,213	547	667	16	45,593
7		1,559	892	667	1	30,924
30	7%	665	82	583	242	139,509
15		899	315	583	62	61,789
10		1,161	578	583	2	39,330
7		1,509	926	583	1	26,779
30	6%	600	100	500	222	115,838
15		844	344	500	42	51,894
10		1,110	610	500	1	33,255
7		1,461	961	500	1	22,712

These payments don't include property taxes and insurance payments but give you an idea what to expect on principal and interest.

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The Separation of Parent and Child

The 1969 book, *Between Parent & Teenager*, was the first known reference of a helicopter parent. Helicopter parenting became prevalent in the late 1980s. The idea refers to hovering over a child throughout their journey always ready to protect them from harm.

I did my parenting in a bubble and didn't realize this cultural phenomenon was unfolding. It became clear as I attended freshman

orientation sessions on college campuses.

This parenting evolution has also emerged into marketing to our culture.

Hollywood recognized it as early as 2006. They offered the movie *Failure to Launch*. It portrays the

What About This Strategy?

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I recommend that first time homebuyers build their budget on a 10 or 15 year mortgage even if they lock in a 30 year version. Pay attention to the column titled "payments until split". I included it to emphasize how many payments you will make on your mortgage before the monthly payment is split in half. At that point half of your payment will contribute to the principal and the other half interest.

Your journey towards debt elimination will accelerate when more than half of your monthly mortgage is contributing towards the principal of the loan.

If you choose to accelerate your mortgage on your first house purchase, you will be debt-free sooner than you imagined and better informed to purchase another house in the future.

conflict of an adult man, who opts to depend on his adult parents for provision, and their desire to launch him into adulthood.

The Affordable Care Act, 2010, included a provision that children could stay on their parent's insurance coverage until they turn 26. This inclusion seems to promote delaying the launching process. Nothing against my kids, but 26?

Other consumer marketing efforts have tapped into the parent's wherewithal to expand their efforts. Whether its financial institutions requiring

a co-signor for a loan or a cellular phone company initiating children on their parent's phone plan, there is a clear effort to attach children's financial responsibilities to their parents.

It can become burdensome if you are caught in a cycle of carrying someone else's financial responsibilities. Our children must ultimately carry their own financial responsibilities. Setting a plan in place today can provide a healthy future for all.

First set a fork in the road for their absorption of expenses you are currently supplementing. The Affordable Care Act set their 26th birthday as that divergence for the health insurance. If you are paying their cell phone bill, you could simply offer, "we'll pay your cell phone bill until your 21st birthday" as an exit ramp for that responsibility. Simply establishing the fork can help ease the temptation of false guilt.

At some point in time the cycle of support will be broken for all. Setting healthy boundaries, expectations and timelines are some of the best suggestions I recognize. There is a

saying in business that "yesterday's perquisites become tomorrow's expectations." Helping your family understand that yesterday's generosity is not assured for tomorrow is a great starting point.

Up Your Average Update

Gimbal Financial's YouTube page has hundreds of recorded messages dating back to 2020.

We opted to formalize these efforts last year in the form of a podcast. We titled the podcast "Up Your Average." The name circles around the idea that you are the average of the 3-4 people you spend the most time with. Our intent is to up your average as well as your friends and family by bringing helpful wisdom in short bursts and recording it to benefit those with personal and financial curiosities.

You can watch it live every Friday at 10am EST and it is available on Apple podcasts, Spotify and YouTube.

We look forward to your feedback and suggestions for future editions!

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